

SENATE BILL NO. 474

INTRODUCED BY D. WANZENRIED

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4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING LAWS RELATING TO THE MONTANA STATE FUND;
5 REQUIRING THE MONTANA STATE FUND TO RATE AND RENEW POLICIES UNDER THE PURVIEW OF
6 THE INSURANCE COMMISSIONER IN A MANNER SIMILAR TO THAT OF WORKERS' COMPENSATION
7 INSURANCE PLAN NO. 2 INSURERS; SPECIFYING THE APPLICATION OF RATE-SETTING UNDER THE
8 INSURANCE CODE TO THE MONTANA STATE FUND; EXPANDING REFERENCE TO THE COMPETITIVE
9 WORKERS' COMPENSATION MARKET; DESIGNATING RATE-SETTING AND CAPITAL SUFFICIENCY
10 TERMS FOR THE MONTANA STATE FUND; REMOVING SOME MANAGEMENT AUTHORITY FROM THE
11 BOARD OF DIRECTORS OF THE MONTANA STATE FUND; REQUIRING ADVANCE NOTICE OF STANDARD
12 AND ALTERED RENEWALS AND NONRENEWALS; REMOVING PROVISIONS RELATED TO THE MONTANA
13 STATE FUND'S MEMBERSHIP IN A WORKERS' COMPENSATION ADVISORY COMMITTEE; AMENDING
14 SECTIONS 33-1-102, 33-16-303, 33-16-1002, 33-16-1008, 33-16-1020, 33-16-1021, 33-16-1035, 39-71-2311,
15 39-71-2314, 39-71-2315, 39-71-2316, AND 39-71-2330, MCA; REPEALING SECTION 33-16-1024, MCA; AND
16 PROVIDING AN IMMEDIATE EFFECTIVE DATE AND APPLICABILITY DATES."

17
18 WHEREAS, one purpose of the Workers' Compensation Act is for all employers to be able to provide
19 workers' compensation coverage at reasonably constant rates; and

20 WHEREAS, that purpose will be achieved only if classifications, rates, and premiums are developed in
21 a single uniform system across all insured plans and among all insurance carriers within the insured plans; and

22 WHEREAS, that purpose will also be achieved only if Montana employers who are workers'
23 compensation insurance consumers are able to compare costs, rates, and premiums that are developed in a
24 single uniform system.

25
26 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

27
28 **Section 1.** Section 33-1-102, MCA, is amended to read:
29 **"33-1-102. Compliance required -- exceptions -- health service corporations -- health maintenance**
30 **organizations -- governmental insurance programs -- service contracts.** (1) A person may not transact a

1 business of insurance in Montana or a business relative to a subject resident, located, or to be performed in
2 Montana without complying with the applicable provisions of this code.

3 (2) The provisions of this code do not apply with respect to:

4 (a) domestic farm mutual insurers as identified in chapter 4, except as stated in chapter 4;

5 (b) domestic benevolent associations as identified in chapter 6, except as stated in chapter 6; and

6 (c) fraternal benefit societies, except as stated in chapter 7.

7 (3) This code applies to health service corporations as prescribed in 33-30-102. The existence of the
8 corporations is governed by Title 35, chapter 2, and related sections of the Montana Code Annotated.

9 (4) This code does not apply to health maintenance organizations or to managed care community
10 networks, as defined in 53-6-702, to the extent that the existence and operations of those organizations are
11 governed by chapter 31 or to the extent that the existence and operations of those networks are governed by Title
12 53, chapter 6, part 7. The department of public health and human services is responsible to protect the interests
13 of consumers by providing complaint, appeal, and grievance procedures relating to managed care community
14 networks and health maintenance organizations under contract to provide services under Title 53, chapter 6.

15 (5) ~~This~~ Except as expressly provided, this code does not apply to workers' compensation insurance
16 ~~programs plan No. 1, provided for in Title 39, chapter 71, part 21, and plan No. 3, the state fund, provided for in~~
17 ~~Title 39, chapter 71, parts 21 and 23, and related sections.~~

18 (6) The department of public health and human services may limit the amount, scope, and duration of
19 services for programs established under Title 53 that are provided under contract by entities subject to this title.
20 The department of public health and human services may establish more restrictive eligibility requirements and
21 fewer services than may be required by this title.

22 (7) This code does not apply to the state employee group insurance program established in Title 2,
23 chapter 18, part 8.

24 (8) This code does not apply to insurance funded through the state self-insurance reserve fund provided
25 for in 2-9-202.

26 (9) (a) This code does not apply to any arrangement, plan, or interlocal agreement between political
27 subdivisions of this state in which the political subdivisions undertake to separately or jointly indemnify one
28 another by way of a pooling, joint retention, deductible, or self-insurance plan.

29 (b) This code does not apply to any arrangement, plan, or interlocal agreement between political
30 subdivisions of this state or any arrangement, plan, or program of a single political subdivision of this state in

1 which the political subdivision provides to its officers, elected officials, or employees disability insurance or life
2 insurance through a self-funded program.

3 (10) (a) This code does not apply to the marketing of, sale of, offering for sale of, issuance of, making
4 of, proposal to make, and administration of a service contract.

5 (b) (i) A "service contract" means a contract or agreement for a separately stated consideration for a
6 specific duration to perform the repair, replacement, or maintenance of property or to indemnify for the repair,
7 replacement, or maintenance of property if an operational or structural failure is due to a defect in materials or
8 manufacturing or to normal wear and tear, with or without an additional provision for incidental payment or
9 indemnity under limited circumstances, including but not limited to towing, rental, and emergency road service.
10 A service contract may provide for the repair, replacement, or maintenance of property for damage resulting from
11 power surges or accidental damage from handling.

12 (ii) A service contract does not include motor club service as defined in 61-12-301.

13 (11) (a) Subject to 33-18-201 and 33-18-242, this code does not apply to insurance for ambulance
14 services sold by a county, city, or town or to insurance sold by a third party if the county, city, or town is liable for
15 the financial risk under the contract with the third party as provided in 7-34-103.

16 (b) If the financial risk for ambulance service insurance is with an entity other than the county, city, or
17 town, the entity is subject to the provisions of this code."

18

19 **Section 2.** Section 33-16-303, MCA, is amended to read:

20 **"33-16-303. Use of rates, rating systems, underwriting rules, and policy or bond forms of rating**
21 **or advisory organizations -- agreements to adhere to.** (1) Members and subscribers of rating or advisory
22 organizations may use the rates, rating systems, underwriting rules, or policy or bond forms of those
23 organizations, either consistently or intermittently, but, except as provided in 33-16-105, 33-16-302, 33-16-305,
24 33-16-307, 33-16-1008, ~~and~~ 33-16-1020 through 33-16-1023, and 33-16-1025 through 33-16-1036, may not
25 agree with each other or rating organizations or others to adhere to the organizations' rates, systems, rules, or
26 policy or bond forms.

27 (2) The fact that two or more admitted insurers, whether or not members or subscribers of a rating or
28 advisory organization, use, either consistently or intermittently, the rates or rating systems made or adopted by
29 a rating organization or the underwriting rules or policy or bond forms prepared by a rating or advisory
30 organization is not sufficient in itself to support a finding that an agreement prohibited under subsection (1) exists

1 and may be used only for the purpose of supplementing or explaining direct evidence of the existence of any
2 agreement."

3

4 **Section 3.** Section 33-16-1002, MCA, is amended to read:

5 **"33-16-1002. Applicability of part.** This part, together and in conjunction with parts 1 through 4 of this
6 chapter, applies to the making of premium rates for workers' compensation insurance issued under compensation
7 plan No. 2 ~~of the Workers' Compensation Act, provided for in~~ Title 39, chapter 71, part 22, and plan No. 3, the
8 state fund, provided for in Title 39, chapter 71, part 23, or under related employer's liability insurance, but does
9 not apply to reinsurance."

10

11 **Section 4.** Section 33-16-1008, MCA, is amended to read:

12 **"33-16-1008. Definitions.** As used in this part, the following definitions apply:

13 (1) "Accepted actuarial standards" means the standards adopted by the casualty actuarial society in its
14 Statement of Principles Regarding Property and Casualty Insurance Ratemaking and the Standards of Practice
15 adopted by the actuarial standards board.

16 (2) (a) "Advisory organization" means a person or organization that either has two or more member
17 insurers or is controlled either directly or indirectly by two or more insurers and that assists insurers in
18 ratemaking-related activities.

19 (b) The term does not include a joint underwriting association, any actuarial or legal consultant, or any
20 employee of an insurer or insurers under common control or management or their employees or manager.

21 (c) As used in this subsection (2), two or more insurers who have a common ownership or operate in
22 this state under common management or control constitute a single insurer.

23 (3) "Classification system" means the plan, system, or arrangement for recognizing differences in
24 exposure to hazards among industries, occupations, or operations of insurance policyholders.

25 (4) "Contingencies" means provisions in rates to recognize the uncertainty of the estimates of losses,
26 loss adjustment expenses, other operating expenses, and investment income and profit that comprise those
27 rates. The provisions may be explicit, including but not limited to a specific charge to reflect systematic variations
28 of estimated costs from expected costs, or implicit, including but not limited to a consideration in selecting a single
29 estimate from a reasonable range of estimates, or both.

30 (5) "Developed losses" means adjusted losses, including loss adjustment expenses, using accepted

1 actuarial standards to eliminate the effect of differences between current payment or reserve estimates and those
2 needed to provide actual ultimate loss payments, including loss adjustment expense payments.

3 (6) "Expenses" means the portion of a rate that is attributable to acquisition, filed supervision and
4 collection expenses, general expenses and taxes, licenses, or fees.

5 (7) "Experience rating" means a rating procedure using past insurance experience of the individual
6 policyholder to forecast future losses by measuring the policyholder's loss experience against the loss experience
7 of policyholders in the same classification to produce a prospective premium credit, debit, or unity modification.

8 (8) "Insurer" means a person licensed to write workers' compensation insurance as a plan No. 2 insurer
9 or as plan No. 3, the state fund, under the laws of the state.

10 (9) "Loss trending" means a procedure for projecting developed losses to the average date of loss for
11 the period during which the policies are to be effective, including loss ratio trending.

12 (10) "Market" means the interaction in this state between buyers and plan No. 2 and plan No. 3 sellers
13 of workers' compensation and employer's liability insurance pursuant to the provisions of this part.

14 (11) (a) "Prospective loss costs" means historical aggregate losses and loss adjustment expenses,
15 including all assessments that are loss-based and excluding any separately stated policyholder surcharges,
16 projected through development to their ultimate value and through trending to a future point in time and
17 ascertained by accepted actuarial standards.

18 (b) The term does not include provisions for profit or expenses other than loss adjustment expenses and
19 assessments that are loss-based.

20 (12) "Pure premium rate" means the portion of the rate that represents the loss cost per unit of exposure,
21 including loss adjustment expense.

22 (13) (a) "Rate" or "rates" means rate of premium, policy and membership fee, or any other charge made
23 by an insurer for or in connection with a contract or policy of workers' compensation and employer's liability
24 insurance, prior to application of individual risk variations based on loss or expense considerations.

25 (b) The term does not include minimum premiums.

26 (14) "Reserve estimates" means provisions for insurer obligations for future payments of loss or loss
27 adjustment expenses.

28 (15) "Statistical plan" means the plan, system, or arrangement that is used in collecting data.

29 (16) "Supplementary rate information" means a manual or plan of rates, statistical plan, classification
30 system, minimum premium, policy fee, rating rule, rate-related underwriting rule, and any other information

1 needed to determine the applicable premium for an individual insured that is consistent with the purposes of this
2 part and with rules prescribed by rule of the commissioner.

3 (17) "Supporting information" means the experience and judgment of the filer and the experience or data
4 of other insurers or advisory organizations relied on by the filer, the interpretation of any statistical data relied on
5 by the filer, descriptions of methods used in making the rates, and any other similar information required to be
6 filed by the commissioner."

7

8 **Section 5.** Section 33-16-1020, MCA, is amended to read:

9 **"33-16-1020. Competitive market -- hearing.** (1) A competitive market is presumed to exist unless the
10 commissioner, after hearing, issues an order stating that a reasonable degree of competition does not exist in
11 the market. The order may not expire later than 1 year after issuance.

12 (2) In determining whether a reasonable degree of competition exists, the commissioner shall consider
13 the following factors:

14 (a) the number of insurers actively engaged in providing coverage;

15 (b) market shares and changes in market shares;

16 (c) ease of entry into the market;

17 (d) market concentration among ~~plan No. 2~~ insurers as measured by the Herfindahl-Hirschman index;

18 (e) whether long-term profitability for insurers in the market is unreasonably high in relation to the risks
19 being insured;

20 (f) whether long-term profitability for insurers in the market is reasonable in relation to industries of
21 comparable business risks; and

22 (g) generally accepted and relevant tests relating to competitive market structure, market performance,
23 and market conduct.

24 (3) The workers' compensation insurance market may not be determined to be noncompetitive if the
25 market concentration of the 50 largest insurers writing workers' compensation insurance ~~under plan No. 2~~
26 satisfied the U.S. department of justice merger guidelines for an unconcentrated market.

27 (4) The commissioner's determinations must be made on the basis of findings of fact and conclusions
28 of law."

29

30 **Section 6.** Section 33-16-1021, MCA, is amended to read:

1 **"33-16-1021. Ratemaking standards -- review by commissioner.** (1) Rates may not be excessive,
2 inadequate, or unfairly discriminatory.

3 (2) Rates in a competitive market are not excessive. Rates in a noncompetitive market are excessive
4 if they are likely to produce a long-run profit that is unreasonably high in relation to services rendered.

5 (3) A rate may not be determined to be inadequate unless:

6 (a) it is clearly insufficient to sustain projected losses and expenses;

7 (b) the rate is unreasonably low and the use of the rate by the insurer has had or, if continued, will tend
8 to create a monopoly in the market; or

9 (c) funds equal to the full, ultimate cost of anticipated losses and loss adjustment expenses are not
10 produced when prospective loss costs are applied to anticipated payrolls.

11 (4) Unfair discrimination exists if, after allowing for practical limitations, price differentials fail to reflect
12 equitably the differences in expected losses and expenses. A rate is not unfairly discriminatory because different
13 premiums result for policyholders with different loss exposures or expense levels.

14 (5) In determining whether rates comply with standards under subsection (1), consideration must be
15 given to:

16 (a) past and prospective loss experience within and outside Montana, in accordance with accepted
17 actuarial principles;

18 (b) catastrophe hazards and contingencies;

19 (c) past and prospective expenses within and outside Montana;

20 (d) loadings for leveling premium rates over time for dividends, savings, or unabsorbed premium deposits
21 allowed or returned by insurers to their policyholders, members, or subscribers;

22 (e) a reasonable margin for underwriting profit; and

23 (f) all other relevant factors within and outside Montana.

24 (6) The systems of expense provisions included in the rates for use by an insurer or group of insurers
25 may differ from those of any other insurer or group of insurers to reflect the requirements of the operating
26 methods of the insurer or group of insurers.

27 (7) The rate filed by plan No. 2 insurers may contain provisions of contingencies and an allowance
28 permitting a reasonable profit. In determining the reasonableness of a profit, consideration must be given to all
29 investment income attributable to premiums and the reserves associated with those premiums.

30 (8) The rate filed by plan No. 3, the state fund, must be set at amounts sufficient, when invested, to carry

1 the estimated cost of all claims to maturity, to meet the reasonable expenses of conducting the business of the
 2 state fund, and to amass and maintain an excess of surplus over the amount produced by the national association
 3 of insurance commissioners' risk-based capital requirements for a casualty insurer. The rate may include multiple
 4 rating tiers for classifications that take into consideration loans, premium size, and other factors relevant in placing
 5 an employer within a rating tier.

6 ~~(8)(9)~~ The commissioner may investigate and determine whether rates in Montana are excessive,
 7 inadequate, or unfairly discriminatory. In any investigation and determination, the commissioner shall also
 8 consider the factors specified in 33-16-1020."

9

10 **Section 7.** Section 33-16-1035, MCA, is amended to read:

11 **"33-16-1035. Penalties -- suspension of license.** (1) The commissioner may impose upon a person
 12 or organization that violates 33-16-1020 through 33-16-1023 or 33-16-1025 through 33-16-1036 a penalty of not
 13 more than \$500 for each violation.

14 (2) If the commissioner determines that the violation is willful, the commissioner may impose a penalty
 15 of not more than \$1,000 for each violation in addition to any other penalty provided by law.

16 (3) The commissioner may suspend the license of an insurer or an advisory organization that fails to
 17 comply with any order within the time set by the order or extension granted by the commissioner. The
 18 commissioner may not suspend a license for failure to comply with an order until the time prescribed for appeal
 19 from the order has expired or, if appealed, until the order has been affirmed. The commissioner may determine
 20 the period of a suspension, which remains in effect for the period unless modified or rescinded or until the order
 21 upon which the suspension is based is modified, rescinded, or reversed.

22 (4) Unless a consent decree has been entered, a penalty may not be imposed ~~nor may~~ or a license may
 23 not be suspended or revoked unless the commissioner, following a hearing, issues a written order with findings
 24 of fact. The hearing must be held at least 10 days after written notice to the person or organization specifying the
 25 alleged violation.

26 (5) A party aggrieved by an order or decision of the commissioner may, within 30 days after receiving
 27 the commissioner's notice, make a written request for a hearing."

28

29 **Section 8.** Section 39-71-2311, MCA, is amended to read:

30 **"39-71-2311. Intent and purpose of plan -- expense constant defined.** (1) (a) It is the intent and

1 purpose of the state fund to allow employers an option to insure their liability for workers' compensation and
 2 occupational disease coverage with the state fund.

3 (b) The state fund must be neither more nor less than self-supporting. Premium rates must be set at least
 4 annually, in accordance with 33-16-1021, at a level sufficient to ensure the adequate funding of the insurance
 5 program, including the costs of administration, benefits, and adequate reserves, during and at the end of the
 6 period for which the rates will be in effect. In determining premium rates, the state fund shall make every effort
 7 to adequately predict future costs. When the costs of a factor influencing rates are unclear and difficult to predict,
 8 the state fund shall use a prediction calculated to be more than likely to cover those costs rather than less than
 9 likely to cover those costs. Unnecessary surpluses that are created by the imposition of premiums found to have
 10 been set higher than necessary because of a high estimate of the cost of a factor or factors may be refunded by
 11 the declaration of a dividend as provided in this part. For the purpose of keeping the state fund solvent, the board
 12 of directors may implement multiple rating tiers as provided in ~~39-71-2330~~ 33-16-1021 and may assess an
 13 expense constant, a minimum premium, or both.

14 (2) As used in this section, "expense constant" means a premium charge applied to each workers'
 15 compensation policy to pay expenses related to issuing, servicing, maintaining, recording, and auditing the
 16 policy."
 17

18 **Section 9.** Section 39-71-2314, MCA, is amended to read:

19 **"39-71-2314. State fund subject to laws applying to state agencies.** The state fund is subject to laws
 20 that generally apply to state agencies, including but not limited to Title 2, chapters 2, 3, ~~4 (only as provided in~~
 21 ~~39-71-2316)~~, and 6, and Title 5, chapter 13. The state fund is not exempt from a law that applies to state agencies
 22 unless that law specifically exempts the state fund by name and clearly states that it is exempt from that law."
 23

24 **Section 10.** Section 39-71-2315, MCA, is amended to read:

25 **"39-71-2315. Management of state fund -- powers and duties of the board -- business plan**
 26 **required.** (1) ~~(a) The~~ Except as provided in subsection (1)(b), the management and control of the state fund is
 27 vested ~~solely~~ in the board.

28 (b) The authority to determine whether state fund rates are excessive, inadequate, or unfairly
 29 discriminatory is vested in the insurance commissioner under 33-16-1021.

30 (2) ~~The~~ Except as provided in subsection (1)(b), the board is vested with full power, authority, and

1 jurisdiction over the state fund. ~~The and the~~ board may perform all acts necessary or convenient in the exercise
 2 of ~~any its~~ power, authority, or jurisdiction over the state fund, ~~either~~ in the administration of the state fund ~~or in~~,
 3 In connection with the insurance business to be carried on under Title 33, chapter 16, part 10, and the provisions
 4 of this part, the board shall act as fully and completely as the governing body of a private mutual insurance carrier;
 5 ~~in order~~ to fulfill the objectives and intent of this part. Bonds may not be issued by the board, the state fund, or
 6 the executive director.

7 (3) The board shall adopt a business plan no later than June 30 for the next fiscal year. At a minimum,
 8 the plan must include:

9 (a) specific goals for the fiscal year for financial performance. The standard for measurement of financial
 10 performances must include an evaluation of premium to surplus.

11 (b) specific goals for the fiscal year for operating performance. Goals must include but not be limited to
 12 specific performance standards for staff in the area of senior management, underwriting, and claims
 13 administration. Goals must, in general, maximize efficiency, economy, and equity as allowed by law.

14 (4) The business plan must be available upon request to the general public for a fee not to exceed the
 15 actual cost of publication. However, performance goals relating to a specific employment position are confidential
 16 and not available to the public.

17 (5) No sooner than July 1 or later than October 31, the board shall convene a public meeting to review
 18 the performance of the state fund, using the business plan for comparison of all the established goals and targets.
 19 The board shall publish, by November 30 of each year, a report of the state fund's actual performance as
 20 compared to the business plan.

21 (6) The state fund board of directors shall establish in-house guidelines for procurement of
 22 insurance-related services and shall include guidelines for the solicitation of submissions of information regarding
 23 insurance-related services from more than one vendor. The board may include guidelines for the circumstances
 24 when business necessity or expedience may preclude the solicitation of submissions from more than one vendor.
 25 The board may also include in the guidelines the exemptions to the procurement process in 18-4-132."

26

27 **Section 11.** Section 39-71-2316, MCA, is amended to read:

28 **"39-71-2316. Powers of state fund.** (1) For the purposes of carrying out its functions, the state fund
 29 may:

30 (a) insure any employer for workers' compensation and occupational disease liability as the coverage

- 1 is required by the laws of this state and, as part of the coverage, provide related employers' liability insurance
2 upon approval of the board;
- 3 (b) sue and be sued;
- 4 (c) enter into contracts relating to the administration of the state fund, including claims management,
5 servicing, and payment;
- 6 (d) collect and disburse money received;
- 7 (e) adopt classifications and charge premiums for the classifications so that the state fund will be neither
8 more nor less than self-supporting. Premium rates for classifications may be adopted and changed only by using
9 a the process, a procedure, formulas, and factors set forth in rules adopted under Title 33, chapter 16, part 10.
10 ~~2, chapter 4, parts 2 through 4. After the rules have been adopted, the state fund need not follow the rulemaking~~
11 ~~provisions of Title 2, chapter 4, when changing classifications and premium rates. The contested case rights and~~
12 ~~provisions of Title 2, chapter 4, do not apply to an employer's classification or premium rate.~~ The state fund is
13 required to belong to a licensed workers' compensation advisory organization ~~or a licensed workers'~~
14 ~~compensation rating organization under Title 33, chapter 16, part 4, under 33-16-1023 and may shall~~ use the
15 classifications of employment adopted by the designated workers' compensation advisory organization, as
16 provided in ~~Title 33, chapter 16, part 10, 33-16-1023~~ and corresponding rates as a basis for setting its own rates.
17 Except as provided in Title 33, chapter 16, part 10, a workers' compensation advisory organization or a licensed
18 workers' compensation rating organization under Title 33, chapter 16, part 4, or other person may not, without
19 first obtaining the written permission of the employer, use, sell, or distribute an employer's specific payroll or loss
20 information, including but not limited to experience modification factors.
- 21 (f) pay the amounts determined to be due under a policy of insurance issued by the state fund;
- 22 (g) hire personnel;
- 23 (h) declare dividends if there is an excess of assets over liabilities. However, dividends may not be paid
24 until adequate actuarially determined reserves are set aside.
- 25 (i) adopt and implement one or more alternative personal leave plans pursuant to 39-71-2328;
- 26 (j) upon approval of the board, contract with licensed resident insurance producers;
- 27 (k) upon approval of the board, enter into agreements with licensed workers' compensation insurers,
28 insurance associations, or insurance producers to provide workers' compensation coverage in other states to
29 Montana-domiciled employers insured with the state fund;
- 30 (l) upon approval of the board, expend funds for scholarship, educational, or charitable purposes;

1 (m) upon approval of the board, including terms and conditions, provide employers coverage under the
 2 federal Longshore and Harbor Workers' Compensation Act, 33 U.S.C. 901, et seq., the federal Merchant Marine
 3 Act, 1920 (Jones Act), 46 U.S.C. 688, and the federal Employers' Liability Act, 45 U.S.C. 51, et seq.;

4 (n) perform all functions and exercise all powers of a private insurance carrier that are necessary,
 5 appropriate, or convenient for the administration of the state fund.

6 (2) The state fund shall include a provision in every policy of insurance issued pursuant to this part that
 7 incorporates the restriction on the use and transfer of money collected by the state fund as provided for in
 8 39-71-2320."

9

10 **Section 12.** Section 39-71-2330, MCA, is amended to read:

11 **"39-71-2330. Rate setting -- surplus -- ~~multiple rating tiers.~~** (1) The board has the authority to
 12 establish or adopt and file the rates and supplementary information to be ~~charged~~ used by the state fund for
 13 insurance as required by 33-16-1026 and 39-71-2316. The board shall engage the services of an independent
 14 actuary who is a member in good standing with the American academy of actuaries to develop and recommend
 15 actuarially sound rates. Rates must be set at amounts sufficient, when invested, to carry the estimated cost of
 16 all claims to maturity, to meet the reasonable expenses of conducting the business of the state fund, and to
 17 amass and maintain an excess of surplus over the amount produced by the national association of insurance
 18 commissioners' risk-based capital requirements for a casualty insurer.

19 (2) Because surplus is desirable in the insurance business, the board shall annually determine the level
 20 of surplus that must be maintained by the state fund pursuant to this section, but shall maintain a minimum
 21 surplus of 25% of annual earned premium. The state fund shall use the amount of the surplus above the
 22 risk-based capital requirements to secure the state fund against various risks inherent in or affecting the business
 23 of insurance and not accounted for or only partially measured by the risk-based capital requirements.

24 ~~(3) The board may implement multiple rating tiers for classifications that take into consideration losses,~~
 25 ~~premium size, and other factors relevant in placing an employer within a rating tier."~~

26

27 **NEW SECTION. Section 13. Nonrenewal notice -- renewal premium.** (1) (a) An insured has a right
 28 to reasonable notice of nonrenewal. Unless otherwise provided by statute or unless a longer term is provided in
 29 the policy, if the state fund does not intend to renew a policy beyond the agreed expiration date, the state fund
 30 shall at least 45 days prior to the expiration date provided in the policy mail or deliver to the insured a notice of

1 the intention not to renew. The state fund shall also mail or deliver a copy of the notice to the insured's insurance
2 producer if any.

3 (b) Notification of nonrenewal to the insured's insurance producer by electronic transfer of data or by an
4 electronic data retrieval device meets the requirement of a mailed or delivered copy.

5 (2) The state fund shall give notice of any premium due not more than 60 days or less than 30 days
6 before the due date of a renewal premium. The notice must clearly state the effect of nonpayment of the premium
7 on or before the due date.

8

9 NEW SECTION. Section 14. Renewal with altered terms. (1) If the state fund offers or purports to
10 renew a policy but on less favorable terms, at a higher rate, or at a higher rating plan, the new terms, rate, or
11 rating plan take effect on the policy renewal date only if the state fund has mailed or delivered notice of the new
12 terms, rate, or rating plan to the insured at least 45 days before the expiration date of the policy.

13 (2) This section does not apply if the increase in the rate or the rating plan, or both, results from a
14 classification change based on the altered nature or extent of the risk insured against.

15

16 NEW SECTION. Section 15. Repealer. Section 33-16-1024, MCA, is repealed.

17

18 NEW SECTION. Section 16. Codification instruction. [Sections 13 and 14] are intended to be codified
19 as an integral part of Title 39, chapter 71, part 23, and the provisions of Title 39, chapter 71, part 23, apply to
20 [sections 13 and 14].

21

22 NEW SECTION. Section 17. Effective dates. (1) Except as provided in subsection (2), [this act] is
23 effective on passage and approval.

24 (2) [Sections 2, 7, and 15] are effective January 1, 2009.

25

26 NEW SECTION. Section 18. Applicability. (1) [Sections 1 through 12] apply to policies issued or
27 renewed on or after January 1, 2009.

28 (2) [Sections 13 and 14] apply to policies issued, cancelled, or renewed on or after July 1, 2007.

29 - END -